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GORMAN-RUPP
COMPANY

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Moving fluids around the world.

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FINANCIAL

Contents

2	Introduction
2-3	Financial Highlights
4	Letter to Shareholders
5	Recognition
6	International Market
7	Fire Protection Market
8	Municipal Market
9	Industrial Market
10	Petroleum Market
11	Construction Market
12	Original Equipment Manufacturer Market (OEM)
13	Government Market
14	Report of Ernst & Young LLP, Independent Registered Public Accounting Firm
15	Consolidated Statements of Income
16-17	Consolidated Balance Sheets
18	Consolidated Statements of Shareholders' Equity
19	Consolidated Statements of Cash Flows
20-25	Notes to Consolidated Financial Statements
26-31	Management's Discussion and Analysis of Financial Condition and Results of Operation
32	Report of Management on Internal Control Over Financial Reporting
33	Report of Independent Registered Public Accounting Firm
34-35	Eleven-Year Summary of Selected Financial Data and Summary of Quarterly Results of Operations
36	Corporate Officers Division and Subsidiary Managers
37	Board of Directors Committees of the Board of Directors
38-39	Shareholder Information
39	Divisions and Subsidiaries Safe Harbor Statement

2006 Financial Highlights

Record Performance

Thousands of dollars, except per share amounts)

Year ended December 31,

Operating Results

	2006	2005	% change
Net sales	\$270,910	\$231,249	17.2
Net income	19,072	10,903	74.9
Return on net sales	7.0%	4.7%	—

Financial Position

	2006	2005	% change
Total assets	\$187,540	\$179,541	4.5
Working capital	92,472	82,282	12.4
Current ratio	4.3	3.9	—

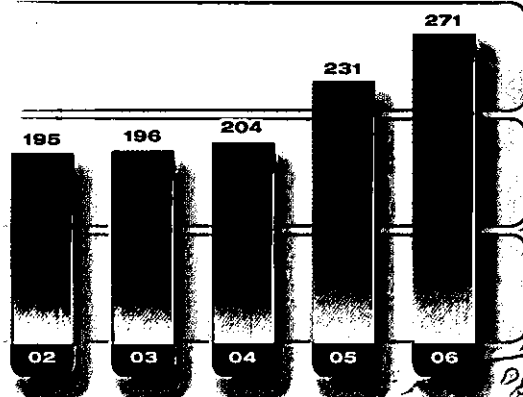
Shareholder Information

	2006	2005	% change
Basic and diluted earnings per share	\$1.43	\$0.82	74.4
Dividends paid per share	0.46	0.45	2.2
Return on average shareholders' equity	14.9%	8.8%	—

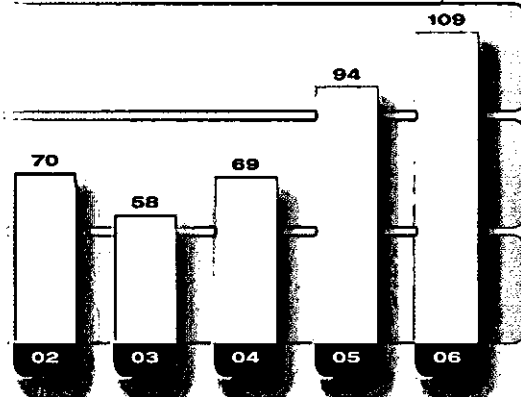
Per share data reflect the 5 for 4 stock split effective December 8, 2006.



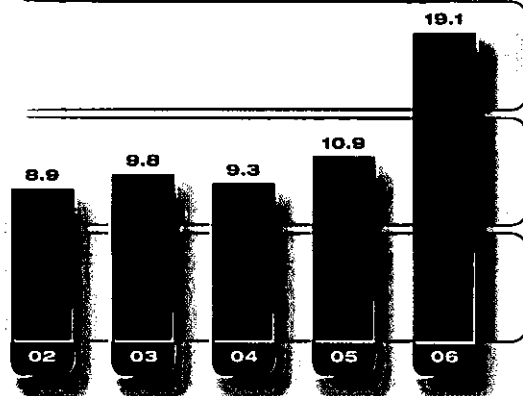
Net Sales (Millions of dollars)



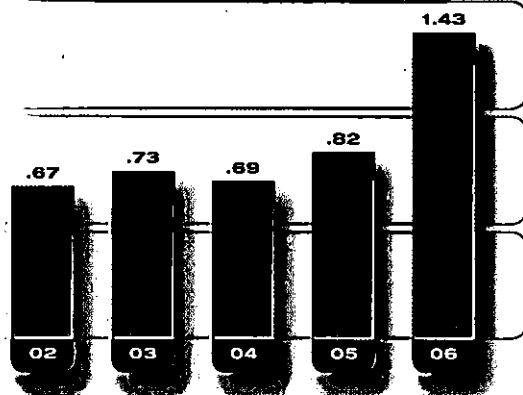
Year-End Backlog (Millions of dollars)



Net Income (Millions of dollars)



Basic and Diluted Earnings Per Share



Per share data reflect the 5 for 4 stock split effective December 8, 2006.

34

Consecutive years of increased dividends.

Publicly traded since 1968, Gorman-Rupp places an extremely high value on shareholder trust. To earn that trust, we have committed ourselves to building world-class pumps of uncompromising quality to facilitate continued growth and shareholder returns.



Letter to Shareholders

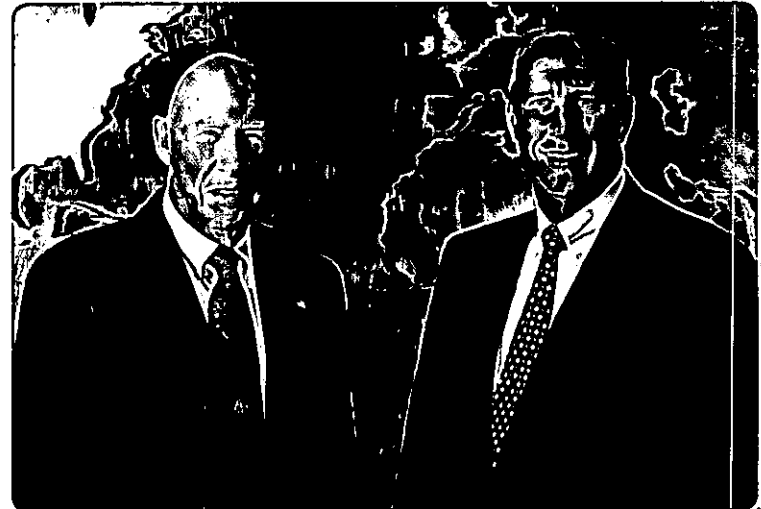
To Our Shareholders:

2006 was an outstanding year for The Gorman-Rupp Company. We achieved all-time record sales and earnings, and completed the year with a record backlog. Shareholder value also increased to record levels in market capitalization, number of shares outstanding and dividends paid. (A five-for-four stock split was also distributed in the fourth quarter.) All divisions of the Company were profitable during 2006 and many experienced double-digit earnings growth. Research and development tax credits during the year contributed \$.10 per share to the Company's financial performance. We were very pleased with our performance in many of the areas we serve, and particularly with growth in the water, wastewater, fire protection, dewatering, flood control, and fabricated component sales.

In the international marketplace, one of our primary areas of focus, Gorman-Rupp's sales have doubled in the past two years. We continue to view the global marketplace as a significant opportunity to expand the presence of the Company's core products, especially in the water, wastewater, flood control, and fire protection markets.

Of special note is the financial rebound of Patterson Pump in 2006. After several years of lackluster performance, Patterson made a considerable financial contribution to the Company this past year. Part of the recovery at Patterson included supplying large pumps for primary flood control in Hurricane Katrina-affected areas.

A global focus on water-related products and infrastructure has brought new attention to companies like Gorman-Rupp. We enter 2007 with a backlog of nearly \$110 million, our highest in history. That backlog, coupled with strong domestic and international demand for water, wastewater, and fire protection equipment, enable us to position the Company well for the future.



James C. Gorman

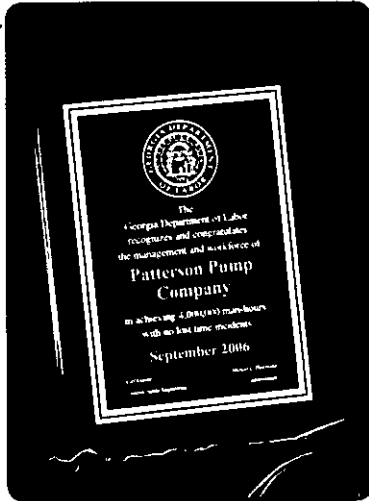
James C. Gorman
Chairman

Jeffrey S. Gorman

Jeffrey S. Gorman
President & Chief Executive Officer



Recognition



2006 Achievement Award

The Patterson Pump Company was recognized by The Georgia Department of Labor for achieving 4,000,000 hours with no lost time incidents.

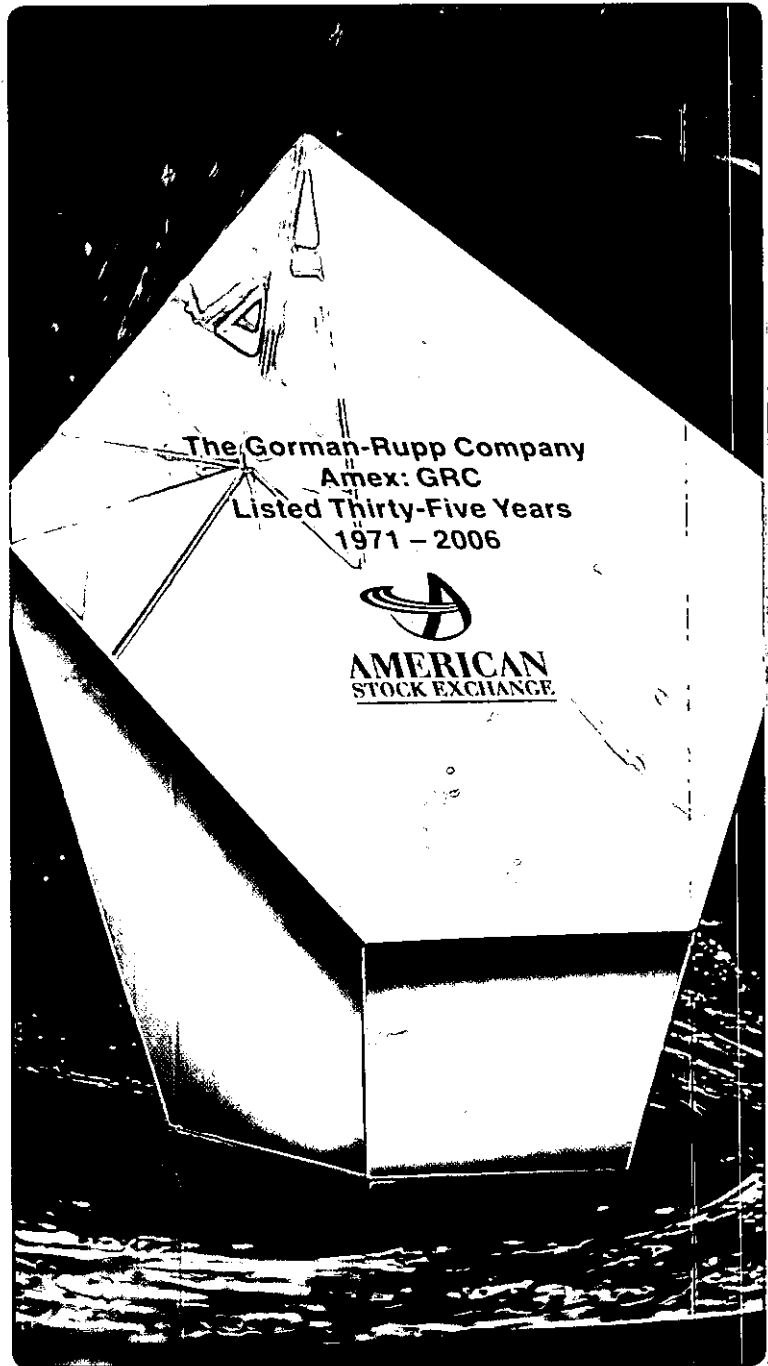


America's Finest Companies

In the sixteenth edition of Bill Stanton's America's Finest Companies®, Gorman-Rupp is one of only 318 publicly traded companies achieving a minimum of 10 consecutive years of increased dividends.

Gorman-Rupp is also recognized as a Dividend All-Star, a listing of 103 companies with 30 or more years of increased dividends.

Most importantly, Gorman-Rupp is one of the top 50 companies identified as having more equity (as a percentage of total assets) on its balance sheet than other companies in the publication.



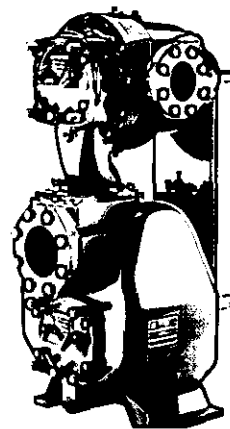
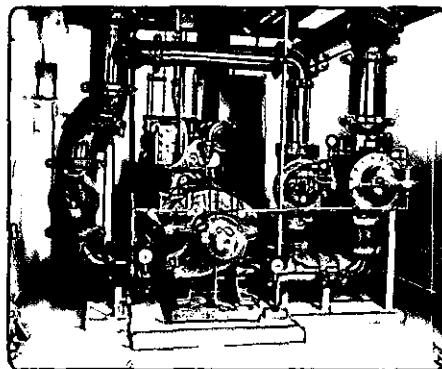
American Stock Exchange

The Gorman-Rupp Company was honored by the American Stock Exchange for being listed on the Exchange for the past 35 years. As a publicly traded stock, Gorman-Rupp has achieved recognition in the investing marketplace as a result of its strong financial position.

International Market

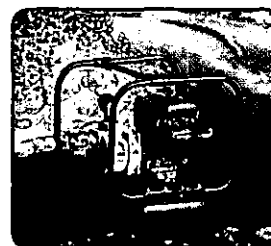
Municipal, Sewage Handling, Fresh Water, Industrial, Fuel Handling

U.S. manufacturing can be globally competitive. Exports are up 44% over 2005 and are a key growth initiative for the Company.



Reflecting the growing demand in oil and gas consumption, sales in the Middle East have experienced phenomenal growth. Patterson Pump has experienced a sizable market increase in fire protection equipment from construction projects in oil producing countries.

Our distribution center in The Netherlands, assembly facility in Ireland and training and distribution center in Thailand have helped to expand sales throughout the European and Asian Markets in water and wastewater applications.

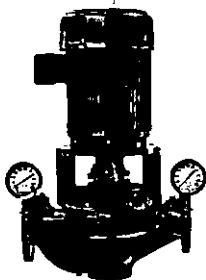
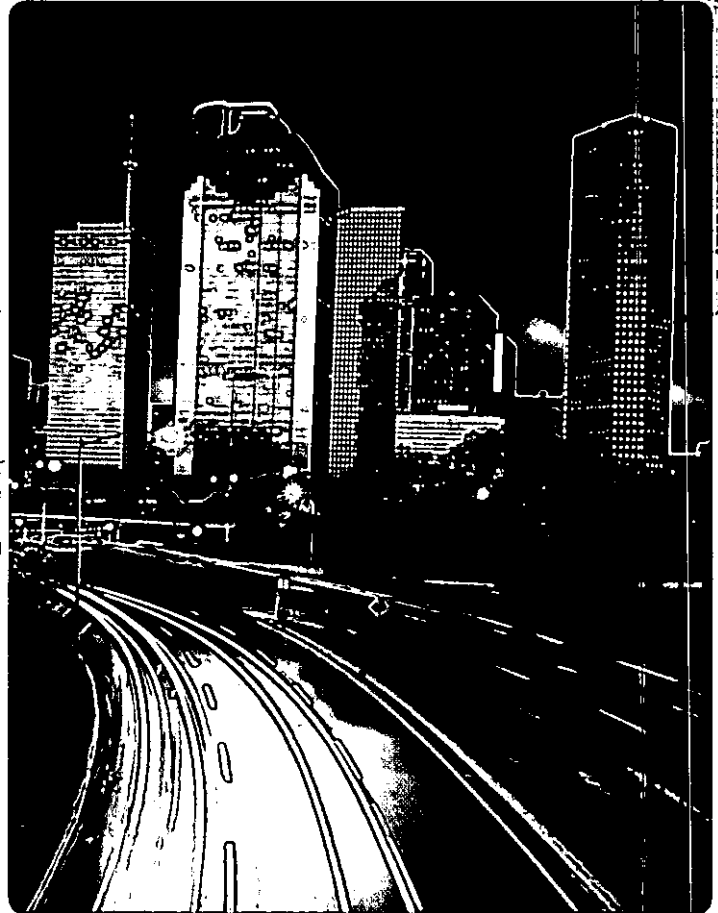
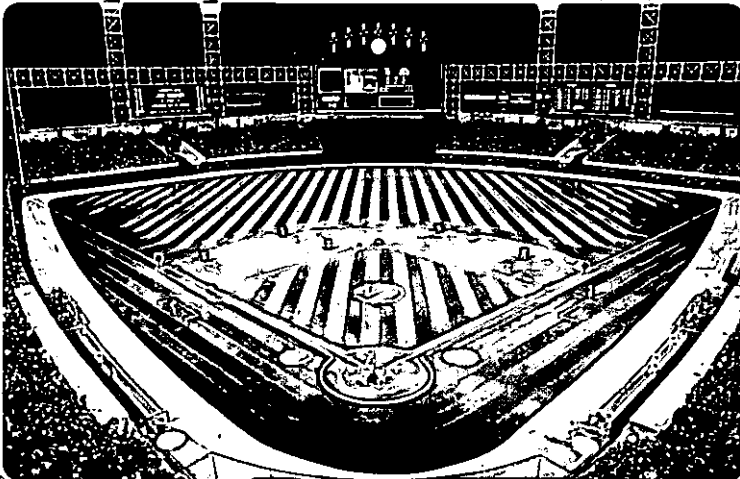




Fire Protection Market

Sprinkler Systems, Standpipes, Fog Systems, Deluge Systems

An international increase from the adoption of UL and FM fire standards required in the construction of oil- and gas-related projects has contributed significantly to the growth of this market.



Guarding life and property throughout the world, Patterson fire pumps deliver water at a force and volume necessary for rapid fire suppression.

Patterson Pump Company continues to be a major supplier of stationary fire pumps. Its products include a line of centrifugal pumps and packaged systems for automatic sprinklers, standpipes and fog and deluge systems found in hotels, factories, airports, public buildings and hundreds of other facilities across the globe.

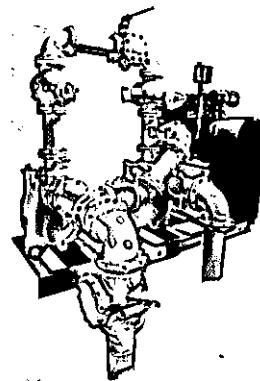
Manufacturing portable and truck-mounted pumps, the Mansfield Division provides domestic fire departments and homeowners access to water where hydrants are not available.



Municipal Market

Clean Water, Sewage Handling, Pressure Boosters, Flood Control

Gorman-Rupp is a world-class leader in municipal clean water and sewage-handling pump systems.



The need for clean water and sewage pumping stations has never been greater. From developing countries to suburban sprawl worldwide, Gorman-Rupp provides booster stations and systems that serve many customers.

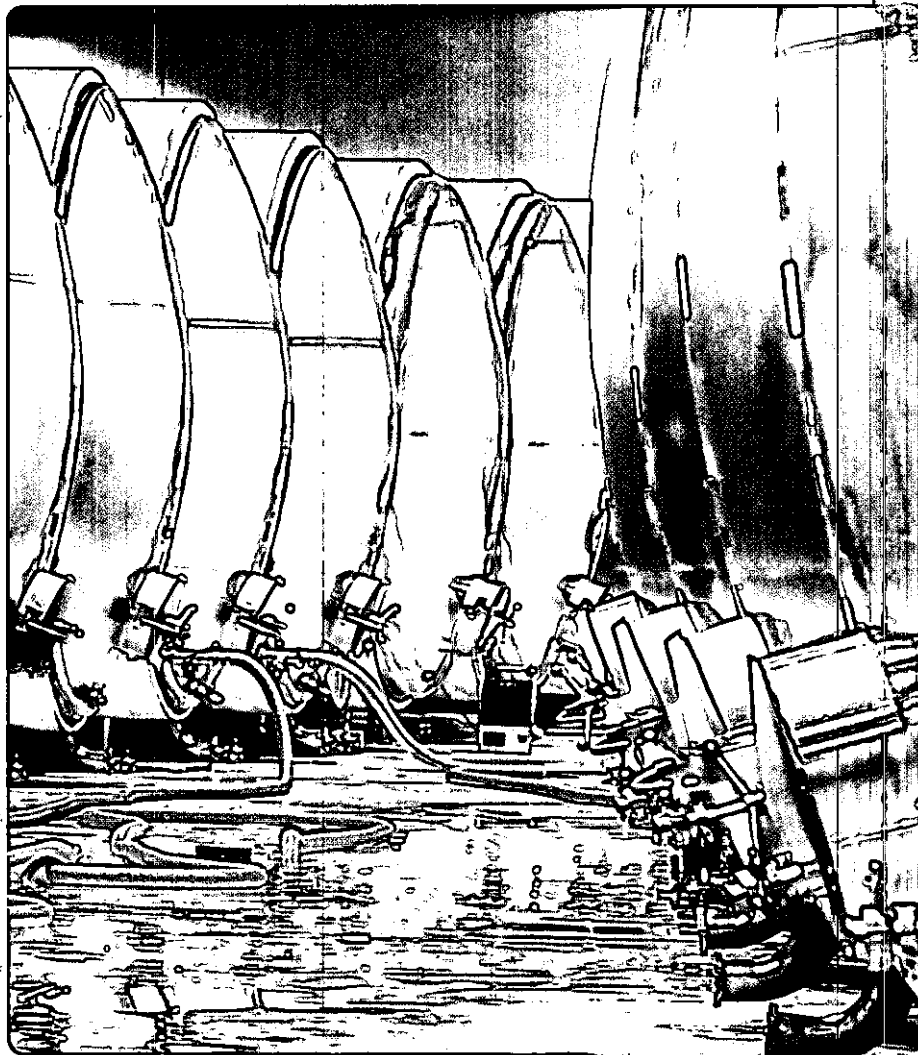
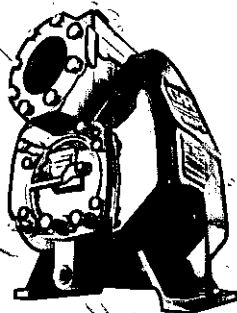
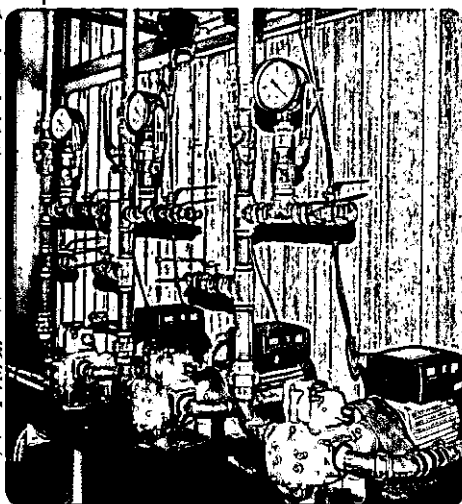
Gorman-Rupp is meeting the ever-increasing demand for sewage pumping stations with innovative above- and below-ground systems that include pumps, motors, controls, piping and accessories. The recently introduced Ultra V Series™ with the UltraMate™ high-pressure pump reduces staging requirements while large volume split case, centrifugal, axial flow and vertical turbine pumps from Patterson provide ultra-dependable water service and guard against flooding.

Gorman-Rupp Auto-Start pumping stations automatically convert to stand-by engine power during power outages.

Industrial Market

Clear Liquids, Corrosive and Abrasive Slurries, Wastewater, Heating, Ventilation and Air Conditioning (HVAC), Steel Mills, Paper Mills, Refineries, Appliance Plants, Automotive Factories, Canneries, Food Processing Plants, Wineries

Gorman-Rupp benefitted from growth in the chemical, petrochemical, mining, food processing and oil and gas industries during 2006.



Across the globe, Gorman-Rupp pumps help manufacturers maximize their productivity.

The Ultra V Series™ pump is adaptable to many applications. With special self-cleaning features that reduce maintenance, the Ultra V Series™ continues a tradition of innovation at Gorman-Rupp.

The Patterson Pro-Max HVAC pumps are engineered to a high-efficiency design that minimizes energy consumption. Patterson and Flo-Pak® serve the heating, ventilation and air conditioning (HVAC), plumbing and private brand markets.

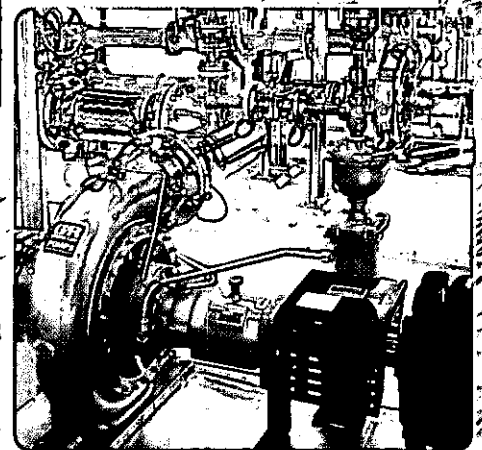
From auto factories, food processing plants and wineries to paper mills and refineries, Gorman-Rupp pumps help manufacturers increase their up-time and enhance profitability.

Petroleum Market

Fuel Handling, Refueling, Ethanol, Bulk Plants, Gasoline, Diesel Fuel

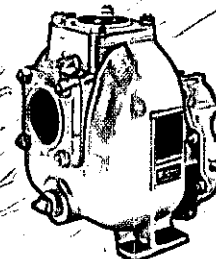


Higher fuel prices have provided additional funding to refurbish bulk plants. In addition, the development of Ethanol/E85, BioDiesel and Low Sulfur Diesel and the cleaning tanks necessary for their preparation have contributed significantly to the growth of this market.



Gorman-Rupp has been serving the petroleum industry since it first designed a compact, lightweight pump for simplified installation in fuel transport trucks in the 1950s:

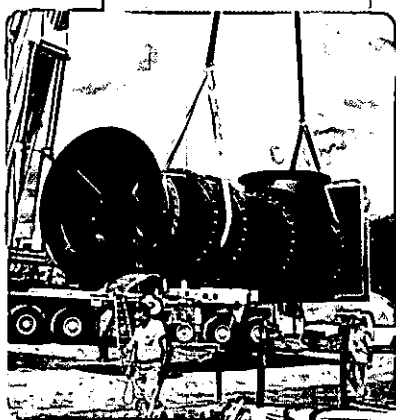
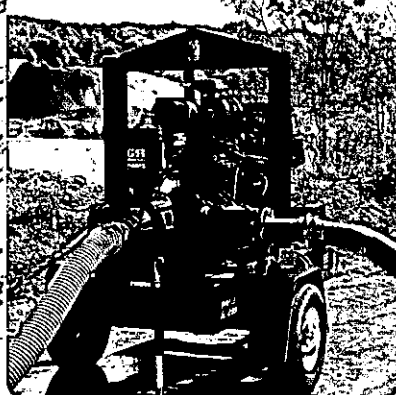
In the last half century, new fuels, vehicles and transportation systems have required Gorman-Rupp to design safer, more efficient systems for the handling of aircraft fuels, gasoline, fuel oil, petrochemicals and solvents as well as installations in bulk plants, tank farms, barges and tank cars.



Construction Market

Dewatering, Flood Control, Rental, Mining, Disaster Recovery

From dewatering areas of natural disaster to maintaining dry and workable construction sites, Gorman-Rupp designs, builds and delivers specialty pump units aimed at restoring normalcy and enhancing productivity.



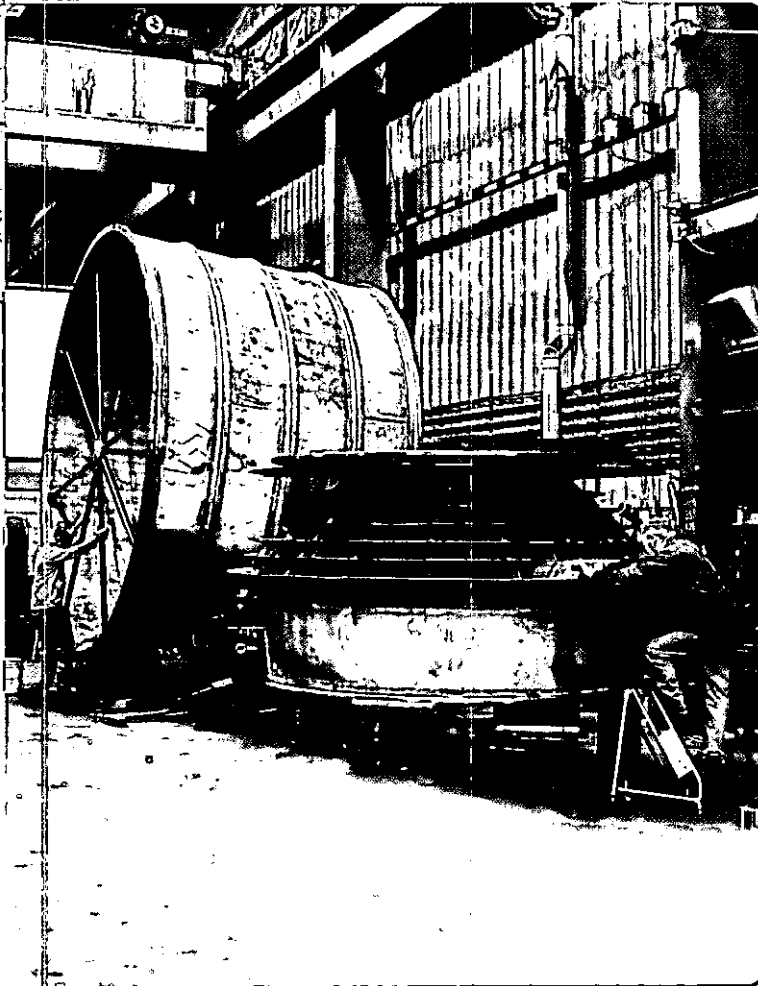
From pumps that move up to 40,000 gallons per minute to small pumps designed for housing contractors and household use, Gorman-Rupp is the leader in self-priming, centrifugal trash pumps for the construction market.

Patterson Pump Company has developed a massive pump for levee protection. The 52 foot-long, 260,000 gpm Axial Flow Pump will protect levees from overflow and guard residents along floodplains and watersheds.

On a variety of construction sites, Gorman-Rupp submersible pumps are dewatering quarries, streams, mines, ditches, foundations and sumps, and saving contractors valuable time and money.

Original Equipment Manufacturer Market (OEM)

Food Processing, Appliance Manufacturing, Photo Processing, Printing, Chemical Processing, Electronics, Water Reclamation, Fabrication



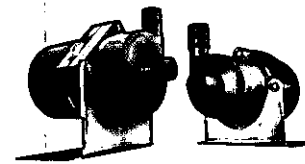
A business philosophy of the Company is to reach out to new markets to expand and diversify the customer base. The most significant near-term opportunities for growth focus on the food and beverage and industrial markets.



For more than 70 years, Gorman-Rupp has provided complete pumping solutions for OEM manufacturers in the appliance, food processing, chemical, waste treatment and HVAC industries.

Applications including the production of large exhaust housings for gas turbine power generation and pumps for new Automated Explosives Detection Systems in airports require innovative engineering and meticulous manufacturing standards.

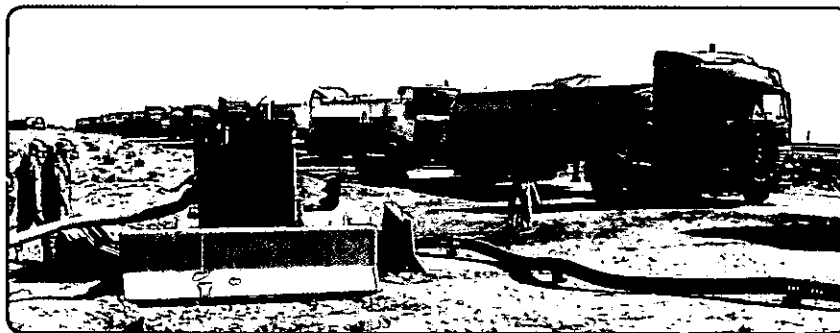
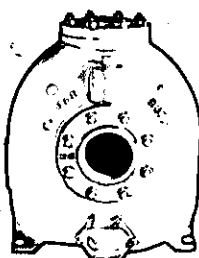
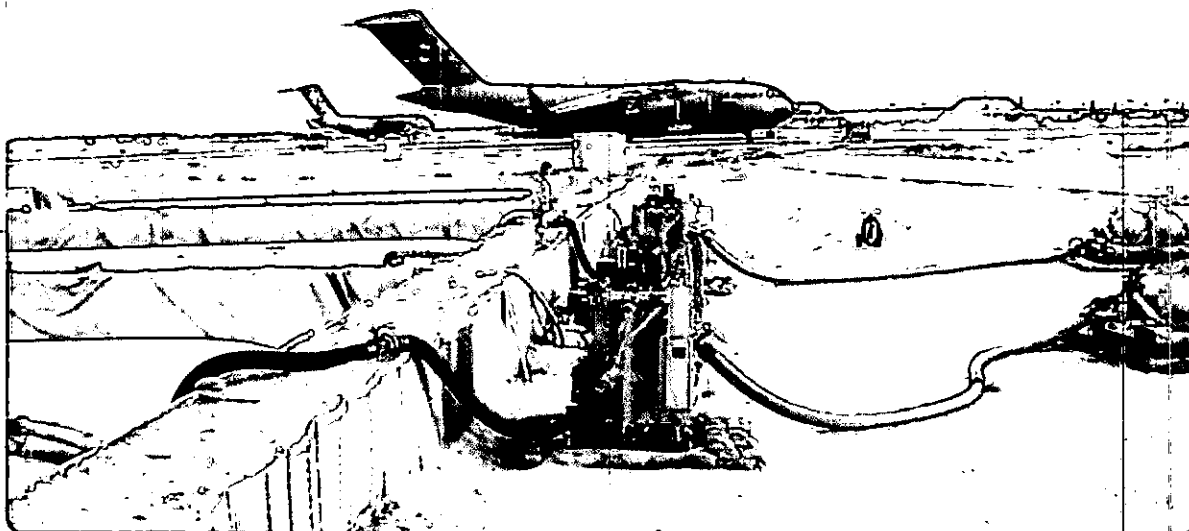
The Gorman-Rupp Industries Division works with OEMs in the commercial laundry, trucking and appliance industries, enhancing strength and stability in this market.



Government Market

Fuel Handling, Potable Water Delivery Systems

Government missions including fuel handling and water delivery systems have helped Gorman-Rupp reinforce its reputation as an innovator.



Gorman-Rupp has served the U.S. Military for decades, providing pumps and systems that are cost-effective and dependable.

Most recently, Gorman-Rupp pumps have provided support in both Iraq and Afghanistan in the distribution of water and fuel for military use and for rebuilding infrastructure.

To enhance the distribution of fuel in a safe and effective manner, Gorman-Rupp manufactures pumps necessary for the mobile fueling package to sustain massive daily fueling requirements in support of military missions.



**Report of Ernst & Young LLP,
Independent Registered Public
Accounting Firm**

**The Board of Directors and Shareholders of
The Gorman-Rupp Company**

We have audited the accompanying consolidated balance sheets of The Gorman-Rupp Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Gorman-Rupp Company and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note F to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158 on December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Gorman-Rupp Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Cleveland, Ohio

February 22, 2007

Consolidated Statements of Income

(Thousands of dollars, except per share amounts)

	Year ended December 31,		
	2006	2005	2004
Net sales	\$270,910	\$231,249	\$203,554
Cost of products sold	212,234	184,178	161,129
Gross Profit	58,676	47,071	42,425
Selling, general and administrative expenses	32,411	30,368	28,999
Operating Income	26,265	16,703	13,426
Other income	1,527	892	1,005
Other expense	(66)	(457)	(79)
Income Before Income Taxes	27,726	17,138	14,352
Income taxes	8,654	6,235	5,075
Net Income	<u>\$ 19,072</u>	<u>\$ 10,903</u>	<u>\$ 9,277</u>
Basic and Diluted Earnings Per Share	<u>\$1.43</u>	<u>\$0.82</u>	<u>\$0.69</u>
Average number of shares outstanding	13,358,145	13,354,394	13,350,173

Shares outstanding and per share data reflect the 5 for 4 stock split effective December 8, 2006.

See notes to consolidated financial statements.



Consolidated Balance Sheets

(Thousands of dollars)

	December 31,	
	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 12,654	\$ 6,755
Short-term investments	4,201	4,785
Accounts receivable	45,135	41,473
Inventories:		
Raw materials and in-process	22,423	29,187
Finished parts	23,491	21,883
Finished products	4,385	1,333
	50,299	52,403
Deferred income taxes	1,981	3,419
Prepaid and other	5,848	1,666
Total Current Assets	120,118	110,501
Property, Plant and Equipment		
Land	1,694	1,694
Buildings	47,951	46,094
Machinery and equipment	92,256	88,841
	141,901	136,629
Less accumulated depreciation	89,550	85,124
Property, Plant and Equipment - Net	52,351	51,505
Deferred Income Taxes	5,977	-
Other	9,094	17,535
	<u>\$187,540</u>	<u>\$179,541</u>

Shares outstanding reflect the 5 for 4 stock split effective December 8, 2006.

See notes to consolidated financial statements.



	December 31,	
	2006	2005
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 10,417	\$ 9,835
Payrolls and related liabilities	3,557	3,781
Commissions payable	4,175	5,395
Accrued expenses	6,248	4,759
Accrued property and sales tax	722	1,203
Income taxes	-	821
Accrued postretirement and medical benefits	<u>2,527</u>	<u>2,425</u>
Total Current Liabilities	27,646	28,219
Retirement Benefits	4,185	-
Postretirement Benefits	27,567	23,255
Deferred Income Taxes	-	1,019
Shareholders' Equity		
Common Shares, without par value:		
Authorized – 14,000,000 shares;		
Outstanding – 13,360,004 shares in 2006 and		
13,356,254 shares in 2005 (after deducting		
treasury shares of 490,347 in 2006 and		
494,097 in 2005) at stated capital amount	5,097	5,095
Retained earnings	135,268	122,243
Accumulated other comprehensive loss	<u>(12,223)</u>	<u>(290)</u>
Total Shareholders' Equity	<u>128,142</u>	<u>127,048</u>
	<u>\$187,540</u>	<u>\$179,541</u>



Consolidated Statements of Shareholders' Equity

	Accumulated Other Comprehensive Income (Loss)				Total
	Common Shares	Retained Earnings	Pension and OPEB Adjustments	Foreign Currency Translation Adjustments	
<i>(Thousands of dollars, except per share amounts)</i>					
Balances January 1, 2004	\$5,091	\$113,813	-	\$(986)	\$117,918
Comprehensive income:					
Net income		9,277			9,277
Other comprehensive income				530	530
Total comprehensive income					9,807
Issuance of 3,000 common shares from treasury	2	78			80
Cash dividends - \$.44 a share		(5,907)			(5,907)
Balances December 31, 2004	5,093	117,261	-	(456)	121,898
Comprehensive income:					
Net income		10,903			10,903
Other comprehensive income				166	166
Total comprehensive income					11,069
Issuance of 3,000 common shares from treasury	2	62			64
Cash dividends - \$.45 a share		(5,983)			(5,983)
Balances December 31, 2005	5,095	122,243	-	(290)	127,048
Comprehensive income:					
Net income		19,072			19,072
Other comprehensive income				80	80
Total comprehensive income					19,152
Adjustment for initial application of SFAS 158, net of tax (\$7,168)			(12,013)		(12,013)
Issuance of 3,000 common shares from treasury	2	79			81
Cash dividends - \$.46 a share		(6,126)			(6,126)
Balances December 31, 2006	<u>\$5,097</u>	<u>\$135,268</u>	<u>\$(12,013)</u>	<u>\$(210)</u>	<u>\$128,142</u>

Shares outstanding and per share data reflect the 5 for 4 stock split effective December 8, 2006.

See notes to consolidated financial statements.



Consolidated Statements of Cash Flows

(Thousands of dollars)

Year ended December 31,

	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 19,072	\$ 10,903	\$ 9,277
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,688	6,808	7,179
Deferred income taxes	(5,558)	2,465	1,504
Changes in operating assets and liabilities:			
Accounts receivable	(3,662)	(8,485)	(840)
Inventories	2,104	(14,169)	(172)
Accounts payable	582	3,220	452
Commissions payable	(1,220)	2,586	(629)
Income taxes	(821)	250	(1,971)
Postretirement benefits	2,624	1,053	287
Other	(1,065)	(1,588)	(589)
Net cash provided by operating activities	18,744	3,043	14,498
Cash flows from investing activities:			
Capital additions - net	(7,258)	(3,189)	(7,500)
Redemption (Purchases) of short-term investments	584	(2,089)	(1,522)
Payment for acquisitions	-	(1,331)	-
Net cash used for investing activities	(6,674)	(6,609)	(9,022)
Cash flows from financing activities:			
Cash dividends	(6,126)	(5,983)	(5,907)
Proceeds from revolving credit facility	-	1,182	-
Payments on revolving credit facility	-	(1,182)	-
Net cash used for financing activities	(6,126)	(5,983)	(5,907)
Effect of exchange rate changes on cash	(45)	102	361
Net increase (decrease) in cash and cash equivalents	5,899	(9,447)	(70)
Cash and cash equivalents:			
Beginning of year	6,755	16,202	16,272
End of year	\$12,654	\$6,755	\$16,202

See notes to consolidated financial statements.



Notes to Consolidated Financial Statements

Note A - Summary of Major Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Earnings per share are calculated in accordance with FAS 128 and are based on the weighted-average number of shares outstanding.

Cash Equivalents and Short-Term Investments

The Company considers highly liquid instruments with maturities of 90 days or less to be cash equivalents. The Company periodically makes short-term investments for which cost approximates market value.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at the historical carrying amount net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on knowledge of the financial condition of customers, review of historical receivables and reserve trends and other pertinent information.

Inventories

Inventories are stated at the lower of cost or market. The costs for approximately 92% and 94% of inventories at December 31, 2006 and 2005, respectively, are determined using the last-in, first-out (LIFO) method, with the remainder determined using the first-in, first-out method. Cost is comprised of materials, labor and an appropriate proportion of fixed and variable overheads, on an absorption costing basis.

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost. Repairs and maintenance costs are expensed as incurred. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The estimated useful life ranges from 20 to

50 years for buildings and 5 to 10 years for machinery and equipment. Long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts.

Goodwill and Intangibles

Goodwill in the amount of \$4,053,000 resulted from an acquisition that occurred in 2002, and intangible assets in the amount of \$3,302,000 relate to acquisitions that occurred in 2002 and 2005. The value of goodwill is tested for impairment as of October 1 of each year by an independent third party, or more frequently if events or circumstances change that would likely reduce the fair value below carrying value. The Company uses the fair market value approach to test for impairment. The fair market valuations used for the impairment tests can be affected by changes in the estimates of revenue multiples and the discount rate used in the calculations. Losses, if any, resulting from impairment tests will be reflected in operating income in the Company's income statement. No impairment resulted from the annual reviews performed in 2006 or 2005.

Amortization of other intangible assets is calculated on the straight-line basis using the following lives:

Sales contracts	18 years
Drawings	15 years
Program logic	10 years

Revenue Recognition

Revenue from product sales is recognized when title passes which generally occurs upon shipment to the customer.

Concentration of Credit Risk

The Company does not require collateral from its customers and has generally had a good collection history. There were no sales to a single customer that exceeded 10% of total net sales for the years ended December 31, 2006, 2005 and 2004.

Shipping and Handling Costs

The Company classifies all amounts billed to customers for shipping and handling as revenue and reflects shipping and handling costs in cost of products sold.

Advertising

The Company expenses all advertising costs as incurred, which for the years ended December 31, 2006, 2005 and 2004 totaled \$3,022,000, \$3,553,000, and \$2,953,000, respectively.

Product Warranties

A liability is established for estimated future warranty and service claims based on historical claim experience and specific product failures. The Company expenses warranty costs directly to cost of products sold. Changes in the Company's product warranty liability are as follows:

<i>(Thousands of dollars)</i>	2006	2005
Balance at beginning of year	\$1,277	\$829
Warranty costs	1,895	1,889
Settlements	(1,956)	(1,441)
Balance at end of year	<u>\$1,216</u>	<u>\$1,277</u>

Foreign Currency Translation

Assets and liabilities of the Company's operations outside the United States which are accounted for in a functional currency other than U.S. Dollars are translated into U.S. Dollars using year-end exchange rates. Revenues and expenses are translated at weighted-average exchange rates effective during the year. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive (loss) income within shareholders' equity.

Gains and losses resulting from foreign currency transactions, the amounts of which are not material, are included in net income.

Common Stock Split

On October 27, 2006, the Company announced a five-for-four common stock split effective December 8, 2006 to shareholders of record as of November 15, 2006.

Reclassification

Certain amounts for 2005 have been reclassified to conform to the 2006 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs—an amendment of ARB No. 43, Chapter 4." This Statement amends the guidance in ARB No. 43 to require idle facility expense, freight, handling costs, and wasted material (spoilage) be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company adopted SFAS No. 151 effective January 1, 2006 and there has been no significant impact on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning January 1, 2007. The Company does not expect the adoption of FIN 48 to have a significant impact on its consolidated financial statements. See Note E in the Notes to Consolidated Financial Statements.



Notes to Consolidated Financial Statements

In September, 2006 the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements," which provides interpretive guidance on the consideration of the effects of prior year misstatements in fiscal years ending after November 15, 2006 and is required to be adopted by the Company in its fiscal year ending December 31, 2006. The Company adopted SAB No. 108 effective December 31, 2006. There was no effect on the consolidated financial statements for the year ended December 31, 2006.

In September, 2006 the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158"). FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree health care and other postretirement plans in their consolidated financial statements. The provisions of FAS 158 have been adopted for the fiscal year ending December 31, 2006. See Note F in the Notes to Consolidated Financial Statements.

Note B - Allowance for Doubtful Accounts

The allowance for doubtful accounts was \$359,000 and \$422,000 at December 31, 2006 and 2005, respectively.

Note C - Inventories

The excess of replacement cost over LIFO cost is approximately \$41,904,000 and \$38,221,000 at December 31, 2006 and 2005, respectively. Replacement cost approximates current cost. Reserves for excess and obsolete inventory totaled \$2,408,000 and \$2,847,000 at December 31, 2006 and 2005, respectively.

Note D - Financing Arrangements

Under an unsecured demand line of credit which matures in June, 2008, the Company may borrow up to \$10.0 million with interest at LIBOR plus .75% or at alternative rates as selected by the Company. At December 31, 2006 there was \$9,565,000 available for borrowing after deducting \$435,000 for letters of credit.

The Company has a \$4.0 million unsecured revolving loan agreement which matures in May, 2008. At December 31, 2006 there was \$1,715,000 available

for borrowing after deducting \$2,285,000 for letters of credit. Interest is payable quarterly at LIBOR plus .55% or at alternative rates as selected by the Company.

The \$10.0 million demand line of credit and the \$4.0 million revolving loan agreement contain restrictive covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios. At December 31, 2006 the Company was in compliance with such requirements.

Interest expense, which approximates interest paid, was \$41,000, \$25,000 and \$40,000 in 2006, 2005 and 2004, respectively.

The Company has operating leases for certain offices, manufacturing buildings, land, office equipment and automobiles. Rental expenses relating to operating leases were \$588,000, \$433,000 and \$670,000 in 2006, 2005 and 2004, respectively.

The future minimum lease payments due under these operating leases are as follows:

(Thousands of dollars)	2007	2008	2009	2010	2011	Thereafter
Minimum lease payments	\$477	\$378	\$340	\$203	\$201	\$2,400

Note E - Income Taxes

The components of income before income taxes are:

(Thousands of dollars)	2006	2005	2004
United States	\$26,001	\$15,618	\$13,011
Foreign	1,725	1,520	1,341
	<u>\$27,726</u>	<u>\$17,138</u>	<u>\$14,352</u>

The components of income tax expense are as follows:

(Thousands of dollars)	2006	2005	2004
Current expense:			
Federal	\$5,334	\$3,188	\$2,702
Canadian	706	535	248
State and local	1,004	46	621
	<u>7,044</u>	<u>3,769</u>	<u>3,571</u>
Deferred expense (credit):			
Federal	1,549	1,684	1,240
Canadian	(52)	(44)	(87)
State and local	113	826	351
	<u>1,610</u>	<u>2,466</u>	<u>1,504</u>
	<u>\$8,654</u>	<u>\$6,235</u>	<u>\$5,075</u>

The reconciliation between income tax expense and the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes is as follows:

<i>(Thousands of dollars)</i>	2006	2005	2004
Income taxes at statutory rate	\$9,704	\$5,998	\$5,023
State and local income taxes, net of federal tax benefit	726	567	632
Tax credits	(1,496)	-	-
Other	(280)	(330)	(580)
	<u>\$8,654</u>	<u>\$6,235</u>	<u>\$5,075</u>

Research and development tax credits of \$1,496,000 for the years 2002 through 2006 were realized in 2006.

Deferred tax assets and liabilities consist of the following:

<i>(Thousands of dollars)</i>	2006	2005	2004
Deferred tax assets			
Inventories	\$ 235	\$ 1,327	\$ 2,181
Accrued liabilities	1,693	2,006	2,835
Postretirement health benefits obligation	10,083	8,132	8,718
Other	1,554	-	-
Total deferred tax assets	13,565	11,465	13,734
Deferred tax liabilities			
Depreciation and amortization	5,607	5,956	7,021
Other	-	3,109	1,848
Total deferred tax liabilities	5,607	9,065	8,869
Net deferred tax assets	<u>\$7,958</u>	<u>\$2,400</u>	<u>\$4,865</u>

The Company made income tax payments of \$11,982,000, \$3,710,000 and \$5,930,000 in 2006, 2005 and 2004, respectively.

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition,

measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48, if any, will be recorded as an adjustment to retained earnings at the beginning of the period. Subject to any changes to the facts and circumstances used in our evaluation, the Company does not expect that the adoption of FIN 48 will have a significant impact on the Company's financial position and results of operations. The Company anticipates that there will be no immediate impact on cash flows.

Note F - Pensions and Other Postretirement Benefits

The Company sponsors a defined benefit pension plan covering substantially all employees. Additionally, the Company sponsors a defined contribution pension plan at two locations not participating in the defined benefit pension plan. A 401(k) plan that includes a partial Company match is also available. Contributions for the defined contribution pension plan and the 401(k) plan in 2006, 2005 and 2004 were \$742,000, \$599,000 and \$573,000, respectively. The Company also sponsors a non-contributory defined benefit health care plan that provides health benefits to substantially all retirees and their spouses. The Company funds the cost of these benefits as incurred. For measurement purposes, a 4.0% annual rate of increase in the per capita cost of covered health care benefits for retirees age 65 and over was assumed for 2007. The rate of increase is expected to remain constant going forward.

The Company has adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158") for the fiscal year ending December 31, 2006. FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree health care and other postretirement plans in their financial statements.



Notes to Consolidated Financial Statements

The following table presents the plans' funded status as of the measurement date reconciled with amounts recognized in the Company's balance sheets as required by FAS 158:

	Pension Benefits		Postretirement Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Accumulated benefit obligation at end of year	\$40,349	\$34,909	\$29,435	\$30,980
Change in benefit obligation				
Benefit obligation at beginning of year	\$45,264	\$39,870	\$30,980	\$30,747
Service cost	2,236	1,999	1,191	1,074
Interest cost	2,496	2,222	1,709	1,758
Benefits paid	(3,984)	(3,082)	(1,470)	(2,152)
Actuarial (gain) or loss	2,762	4,255	(2,975)	(447)
Benefit obligation at end of year	<u>\$48,774</u>	<u>\$45,264</u>	<u>\$29,435</u>	<u>\$30,980</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$36,418	\$31,738	-	-
Actual return on plan assets	5,617	1,922	-	-
Employer contributions	6,538	5,840	1,470	2,152
Benefits paid	(3,984)	(3,082)	(1,470)	(2,152)
Fair value of plan assets at end of year	<u>\$44,589</u>	<u>\$36,418</u>	<u>-</u>	<u>-</u>
Funded status at measurement date	<u>\$\$(4,185)</u>	<u>\$\$(8,846)</u>	<u>-</u>	<u>-</u>
Amounts recognized in the statement of financial position consist of:				
Current liabilities	-	-	\$1,868	\$1,980
Noncurrent liabilities	4,185	-	27,567	23,255
	<u>\$4,185</u>	<u>-</u>	<u>\$29,435</u>	<u>\$25,235</u>
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial (gain) or loss	\$16,674	-	\$2,507	-
Deferred tax benefit	(6,236)	-	(932)	-
After tax actuarial (gain) or loss	<u>\$10,438</u>	<u>-</u>	<u>\$1,575</u>	<u>-</u>

	Pension Benefits		Postretirement Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Components of net periodic benefit cost				
Service cost	\$2,236	\$1,999	\$1,191	\$1,074
Interest cost	2,496	2,222	1,709	1,758
Expected return on plan assets	(2,858)	(2,438)	-	-
Recognized actuarial (gain) or loss	1,024	751	262	339
Net periodic benefit cost	<u>2,898</u>	<u>2,534</u>	<u>3,162</u>	<u>3,171</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income are:				
Net loss (gain)	2	-	-	-
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$2,900</u>	<u>\$2,534</u>	<u>\$3,162</u>	<u>\$3,171</u>

The prior service cost is amortized on a straight line basis over the average remaining service period of active participants.

The gain or loss in excess of the greater of 10% of the benefit obligation or the market related value of assets is amortized on a straight line basis over the average remaining service period of active participants.

	Pension Benefits		Postretirement Benefits	
(Thousands of dollars)	2006	2005	2006	2005
Weighted-average assumptions used to determine benefit obligations at October 31 are:				
Discount rate	5.70%	5.70%	5.70%	5.70%
Rate of compensation increase	3.50%	3.50%	-	-
Weighted-average assumptions used to determine net periodic benefit cost for years ended October 31 are:				
Discount rate	5.70%	5.89%	5.70%	5.89%
Expected long-term rate of return on plan assets	8.00%	8.00%	-	-
Rate of compensation increase	3.50%	3.50%	-	-

The investment return of the Account's asset allocation will be measured against those of a target portfolio consisting of 60% equities, 35% fixed income securities, and 5% cash equivalents of domestic corporations. Equities (including all convertible securities) may comprise up to 70% of the accounts market value, with a minimum requirement of 20%. Fixed income/floating rate securities (including preferred stocks and cash equivalents) should not exceed 80% of the Account's market value and may represent as little as 30%. Cash equivalents (including all senior debt securities with less than one year to maturity) may comprise up to 40% of the Fund's market value. Cash may constitute zero assets in the account. Non-U.S. corporate securities may compromise up to 35% of the account. The long-term objective growth rate of the Plan is the Consumer Price Index plus 3%.

Pension Benefits

(Thousands of dollars)

2006 2005

Weighted-average asset allocations at October 31 are:

Asset Category

Equity Securities	66%	62%
Fixed Income	34%	32%
Cash and Cash Equivalents	0%	6%

Target Asset Allocations

Equity Securities	20-70%	50-62%
Fixed Income	30-80%	32-45%
Cash and Cash Equivalents	0-40%	0-10%

Contributions

The Company expects to contribute \$4,824,000 to its pension plan in 2007.

Expected future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Thousands of dollars)	2007	2008	2009	2010	2011	2012-2016
Pension	\$3,432	\$3,163	\$3,595	\$4,215	\$3,944	\$26,089
Postretirement	\$1,920	\$1,888	\$1,950	\$2,081	\$2,228	\$12,807

Note G - Business Segment Information

The Company operates principally in one business segment, the design, manufacture and sale of pumps and related fluid control equipment for water, wastewater, construction, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilation and air conditioning (HVAC), military and other liquid-handling applications. The Company's pumps are marketed in the United States and Canada through a network of approximately 1,000 distributors, through manufacturers' representatives (for sales to many original equipment manufacturers), through third-party distributor catalogs, and by direct sales. Export sales are made primarily through foreign distributors and representatives. The Company exports to more than 90 countries around the world. The components of customer sales, determined based on the location of customers, are as follows:

(Thousands of dollars)	2006	%	2005	%	2004	%
United States	\$185,291	68	\$171,677	74	\$161,374	79
Exports to foreign countries	85,619	32	59,572	26	42,180	21
Total	\$270,910	100	\$231,249	100	\$203,554	100

Note H - Other Assets

The major components of other assets are as follows:

(Thousands of dollars)	December 31, 2006	2005
Goodwill	\$ 4,053	\$ 4,053
Intangibles:		
Trade names	1,020	1,020
Drawings	1,400	1,400
Other intangibles	882	863
Prepaid pension cost	-	8,850
Other assets	2,601	1,974
	9,956	18,160
Less - accumulated amortization	(862)	(625)
Total	\$ 9,094	\$17,535



Management's Discussion and Analysis of Financial Condition and Results of Operation

The Company operates principally in one business segment, the design, manufacture and sale of pumps and related equipment for use in water, wastewater, construction, industrial, petroleum, original equipment, agriculture, fire protection, heating, ventilation and air conditioning (HVAC), military and other liquid-handling applications.

Results of Operations 2006 Compared to 2005

The Company achieved record net sales of \$270.9 million in 2006 compared to \$231.2 million in 2005, an increase of \$39.7 million or 17.2%. The record level of net sales reflected the continued organic growth in the Company's core business of fluid-handling applications. Sales of dewatering and flood control equipment contributed to the strong 2006 results. The international, fire protection, municipal and original equipment manufacturer (OEM) markets all recorded substantial increases in sales revenue in 2006. In the OEM market, sales of fabricated components increased \$10.8 million from 2005 levels. At Patterson Pump Company, a \$6.9 million order was shipped for flood control and levee protection, contributing to an \$8.6 million increase in centrifugal pump sales. Fire protection sales increased \$11.0 million from 2005 levels as a result of continued growth in international construction activity and the strong global economies. Additional price increases of three to five percent were implemented midyear to offset inflationary trends in the metals commodity markets and higher energy costs.

Total export shipments increased \$26.0 million or 43.6% from 2005. Export sales amounted to \$85.6 million in 2006 compared to \$59.6 million in 2005, representing 32% of total net sales in 2006 compared to 26% in 2005, more than doubling in the past two years. The increase in export sales is primarily the result of an increased focus on international growth by the Company and strong global economies. Additionally, the decline in the value of the U.S. Dollar against foreign currencies contributed to the strong growth.

The record backlog of orders at December 31, 2006 was \$109.5 million compared to \$94.1 million at December 31, 2005, an increase of \$15.4 million or

16.4%. Patterson Pump Company's backlog increased \$6.1 million from December, 2005 levels and includes a \$15 million order for pumping equipment for a New Orleans flood control project that is scheduled to ship in the first half of 2007. The Mansfield Division backlog increased \$6.2 million due to strength in its core markets, including construction. Over 90 percent of the current backlog of orders is expected to ship during 2007, with the remainder in 2008.

Cost of products sold in 2006 was \$212.2 million compared to \$184.2 million in 2005, an increase of \$28.0 million or 15.2%. As a percent of sales, cost of products sold was 78.3% in 2006 compared to 79.6% in 2005. The 1.3% reduction in cost of products sold as a percent of net sales was primarily related to efficiencies on increased volume at the Company's production facilities. Material costs and hourly labor costs increased \$21.1 million and \$3.2 million, respectively, to support the growth in sales volumes and were proportionate to the increase in sales. Rising raw material costs were realized early in the year and stabilized toward the end of the year at the somewhat higher levels. Stainless steel, copper and aluminum all realized substantial price increases during the year. Profit sharing expense increased \$1.3 million related to the improved operating income levels that were achieved during the year. Retirement and postretirement benefit expense increased \$813,000 from higher service and interest costs. Health care costs increased \$382,000 due to increased claims and higher medical costs. As a percent of net sales, gross margins were 21.7% in 2006 and 20.4% in 2005.

Selling, general and administrative (SG&A) expenses in 2006 were \$32.4 million compared to \$30.4 million in 2005, an increase of \$2.0 million. As a percent of net sales, SG&A expenses were 12.0% during 2006 and 13.1% in 2005, with the decrease of 1.1 percentage points related primarily to the growth in sales volume. Salaries increased \$721,000 due to the filling of vacancies in open positions and additional hiring to support the growth in sales volume. Professional services increased \$663,000 due to higher consulting fees for outsourced services. Profit sharing expense increased \$517,000 related to the improved operating income levels that were achieved during the year. Retirement and postretirement benefit expense increased \$236,000 from



higher service and interest costs. Offsetting these increases was a \$530,000 reduction in advertising expense in 2006 due partially to a trade show that was held in 2005 that is held every three years.

Other income in 2006 was \$1.5 million compared to \$892,000 in 2005, an increase of \$608,000 or 68.2%. Increased interest income of \$380,000 was the result of higher cash balances invested during the year at higher interest rates. Foreign currency exchange gains increased \$313,000 in 2006, reflecting fluctuations primarily in the value of the U.S. Dollar vs. the Euro throughout the year.

Other expense was \$66,000 and \$457,000 in 2006 and 2005, respectively. Foreign currency exchange losses decreased \$393,000 in 2006, reflecting fluctuations primarily in the value of the U.S. Dollar vs. the Euro throughout the year.

The effective income tax rate was 31.2% in 2006 compared to 36.4% in 2005, a decrease of 5.2 percentage points. The lower tax rate was primarily due to research and development tax credits for the years 2002 through 2006, of which \$1.5 million was realized in 2006, and changes in state and local tax liabilities totaling \$570,000. Without the research and development tax credits, the effective tax rate would have been 36.6%.

Net income for 2006 was a record \$19.1 million compared to \$10.9 million in 2005, an increase of \$8.2 million or 75.2%. As a percent of net sales, net income was 7.0% and 4.7% in 2006 and 2005, respectively. The strong growth in net income was primarily a result of growth in sales and the much improved profitability at the Company's Patterson Pump Company subsidiary.

Earnings per share was \$1.43 in 2006 compared to \$0.82 in 2005, an increase of \$.61 per share which reflects the five-for-four stock split effective December 8, 2006.

Cash dividends paid on common shares increased \$.01 per share during 2006 to \$0.46 per share and marked the 34th consecutive year of increased cash dividends. The dividend yield at December 31, 2006 was 1.2%. Dividends reflect the five-for-four stock split effective December 8, 2006.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which changed the accounting rules for reporting and disclosures related to pension and other postretirement benefit plans for companies with a year-end after December 15, 2006. As part of the pronouncement, companies are required to record pension and postretirement liabilities on their balance sheets. At December 31, 2006, the Company recorded a \$19.1 million charge against other comprehensive income related to retirement and postretirement expenses. A deferred tax benefit of \$7.1 million resulted in a net charge to other comprehensive income of \$12.0 million. Effective by 2008, the Company will be required to change the measurement date for pension and postretirement benefit plans from October 31 to December 31.

Results of Operations

2005 Compared to 2004

The Company recorded record net sales of \$231.2 million in 2005 compared to \$203.6 million in 2004, an increase of 13.6%. The record level of sales reflected continued strength in the economy that began in 2004. Growth in sales in the construction, industrial, municipal, fire protection and international markets all contributed to the increased sales revenue in 2005. The Mansfield Division had record shipments for the year, with commercial sales increasing \$10.0 million. At Patterson Pump Company, fire protection sales increased \$9.4 million from 2004 levels.

Export shipments amounted to \$59.6 million in 2005 compared to \$42.2 million in 2004, an increase of \$17.4 million or 41.2%. Export shipments represented 26% of total net sales in 2005 compared to 21% in 2004. The increase was partially attributable to strength in Patterson Pump Company's fire protection market; higher energy prices provided funds for the purchase of fire pumps by oil producing countries for new construction activities.

The backlog of orders at December 31, 2005 was \$94.1 million compared to \$69.0 million at December 31, 2004, an increase of \$25.1 million or 36.4%. Patterson Pump Company's backlog increased \$20.3 million from



Management's Discussion and Analysis of Financial Condition and Results of Operation

December, 2004 levels, accounting for the majority of the increase. The current backlog of orders is expected to ship during 2006.

Cost of products sold in 2005 was \$184.2 million compared to \$161.1 million in 2004, an increase of \$23.1 million or 14.3%. As a percent of sales, cost of products sold was 79.7% in 2005 compared to 79.2% in 2004. Upward pressure on raw material and energy costs were experienced throughout the year, along with higher inbound and outbound freight costs. As a percent of net sales, gross margins were 20.3% in 2005 and 20.8% in 2004.

Selling, general and administrative (SG&A) expenses in 2005 were \$30.4 million compared to \$29.0 million in 2004. As a percent of net sales, SG&A expenses were 13.1% during 2005 and 14.2% in 2004, with the decrease as a percent of sales due primarily to the higher sales volume. The Construction Exposition (CONEXPO) trade show, which is held every three years, resulted in expenses of \$238,000, which was part of the overall increase in advertising costs of \$600,000. Additionally, retirement costs increased \$210,000 due to higher pension expense. Profit sharing expense increased \$317,000 due to higher net operating income.

Other income in 2005 was \$892,000 compared to \$1,005,000 in 2004, a decrease of \$113,000 or 11.2%. The decrease was primarily a result of reduced rental income as an idle manufacturing facility was sold early in 2005.

Other expense was \$457,000 and \$79,000 in 2005 and 2004, respectively. The increase resulted from foreign currency exchange losses related to the decline of the Euro against the U.S. Dollar.

The effective income tax rate was 36.4% in 2005, compared to 35.4% in 2004. The increase was primarily related to higher Canadian income tax expense.

Net income for 2005 was \$10.9 million compared to \$9.3 million in 2004, an increase of \$1.6 million or 17.5%. As a percent of net sales, net income was 4.7% and 4.6% in 2005 and 2004, respectively. All of the Company's subsidiaries and divisions were profitable in 2005.

Earnings per share was \$0.82 in 2005 compared to \$0.69 in 2004, restated to reflect the five-for-four stock split effective December 8, 2006.

Cash dividends paid on common shares increased \$.01 per share during 2005 to \$0.45, per share and marked the 33rd consecutive year of increased cash dividends. The dividend yield at December 31, 2005 was 2.5%. Dividends reflect the five-for-four stock split effective December 8, 2006.

Trends

The Company is not exposed to material market risks as a result of its export sales or operations outside of the United States. Export sales are denominated predominately in U.S. Dollars and made on open account or with a letter of credit.

Numerous business entities in the pump and fluid-handling industries, as well as a multitude of companies in many other industries, have been targeted in a series of lawsuits in several jurisdictions by various individuals seeking redress to claimed injury as a result of the entities' alleged use of asbestos in their products. The Company and three of its subsidiaries have been drawn into this mass-scaled litigation, typically as one of hundreds of co-defendants in a particular proceeding. (The vast majority of these cases are against Patterson Pump Company.) The allegations in the lawsuits involving the Company and/or its subsidiaries are vague, general and speculative, and most cases have not advanced beyond the early stage of discovery. In certain situations, the plaintiffs have voluntarily dismissed the Company and/or its subsidiaries from some of the lawsuits after the plaintiffs have acknowledged that there is no basis for their claims. In other situations, the Company and/or its subsidiaries have been dismissed from some of the lawsuits as a result of court rulings in favor of motions to dismiss and/or motions for summary judgment. In less than ten cases, the Company and/or its subsidiaries have entered into nominal economic settlements, coupled with dismissal of the lawsuits. Insurers of the Company have engaged legal counsel to represent the Company and its subsidiaries and to protect their interests.

In addition, the Company and/or its subsidiaries are parties in a small number of legal proceedings arising out of the ordinary course of business. Management does not currently believe that these proceedings, or the industry-wide asbestos litigation, will materially impact the Company's results of operations, liquidity or financial condition.



Liquidity and Sources of Capital

Cash equivalents and short-term investments totaled \$16.9 million and there was no debt at December 31, 2006. In addition, the Company had \$11.3 million available in bank lines of credit after deducting \$2.7 million in outstanding letters of credit. The Company was in compliance with all restrictive covenants, including limits on additional borrowings and maintenance of certain operating and financial ratios at December 31, 2006.

Capital expenditures for 2007, estimated to be \$7.0 to \$9.0 million, are expected to be financed through internally generated funds and existing credit arrangements. During 2006, 2005 and 2004, the Company financed its capital improvements and working capital requirements principally through internally generated funds, proceeds from short-term investments and line of credit arrangements with banks.

The Company has allocated \$2,450,000 for site preparation in connection with the future expansion of a manufacturing facility in Mansfield, Ohio. Planning began for the future expansion in 2006. No date has been established for construction.

Cash provided by operating activities was \$18.7 million, \$3.0 million and \$14.5 million in 2006, 2005 and 2004, respectively. In 2006, additional cash was generated principally due to the higher level of profitability.

Cash used for investing activities was \$6.7 million, \$6.6 million and \$9.0 million for 2006, 2005 and 2004, respectively, and primarily consists of investments in machinery and equipment. The Company's 2006 net capital expenditures were \$7.3 million compared to \$3.2 million in 2005, an increase of \$4.1 million.

Cash used for financing activities was \$6.1 million, \$6.0 million, and \$5.9 million in 2006, 2005 and 2004, respectively, and primarily relates to the payment of dividends.

The changes in foreign currency translation against the U.S. Dollar decreased cash \$45,000 in 2006, and increased cash \$102,000 and \$361,000 in 2005 and 2004, respectively.

The ratio of current assets to current liabilities was 4.3 to 1 and 3.9 to 1 at December 31, 2006 and 2005, respectively. Management believes that the Company has adequate working capital and a healthy liquidity position.

Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that is appropriate in Gorman-Rupp's specific circumstances. Application of these accounting principles requires management to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the financial statements, giving due regard to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported under different conditions or using different assumptions pertaining to the accounting policies described below.

Revenue Recognition

Substantially all of Gorman-Rupp's revenues are recognized when products are shipped to unaffiliated customers. The Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 104.



Management's Discussion and Analysis of Financial Condition and Results of Operation

Allowance for Doubtful Accounts

The Company evaluates the collectibility of its accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations to Gorman-Rupp (e.g., bankruptcy filings, substantial downgrading of credit scores, etc.), the Company records a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes reserves for bad debts based on the length of time the receivables are past due. If circumstances change (e.g., an unexpected material adverse change in a major customer's ability to meet its financial obligations), the Company's estimates of the recoverability of amounts due could be reduced by a material amount. Historically, the Company's collection history has been good.

Inventories and Related Allowance

Inventories are valued at the lower of cost or market value and have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on a variety of factors, including historical inventory usage and management evaluations. Historically, the Company has not experienced large write-offs due to obsolescence. The Company uses the last-in, first-out (LIFO) method for primarily all of its inventories.

Pension Plans and Other Postretirement Benefit Plans

The Company has adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158") for the fiscal year ending December 31, 2006. FAS 158 requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree health care and other postretirement plans in their financial statements.

The measurement of liabilities related to pension plans and other postretirement benefit plans is based on management's assumptions related to future events including interest rates, return on pension plan assets, compensation increases and health care cost trend rates. The Company uses a measurement date of October 31 for benefit plan determinations. The discount rates used to determine the present value of future benefits are based on effective yields of investment grade fixed income investments. The discount rate used to value pension plan and postretirement obligations was 5.70% at October 31, 2006 and 2005. Annual expense amounts are determined based on the discount rate at October 31 of the prior year. The expected rate of return on pension assets is designed to be a long-term assumption that will be subject to year-to-year variability. The rate for 2006 and 2005 was 8.00%. During 2006, the fair market value of pension assets increased. Actual pension plan asset performance will either reduce or increase unamortized losses which will ultimately affect net income. The rate of compensation increase was 3.50% in 2006 and 2005.

The assumption used for the rate of increase in medical costs over the next five years was essentially unchanged from 2005 to 2006. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a one-percentage point change in the assumed health care cost trend rate would have the following effects:

(Thousands of dollars)	One-Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components in 2006	\$ 255	\$ (231)
Effect on accumulated postretirement benefit obligation as of December 31, 2006	\$ 2,101	\$ (1,880)

The overall effect of changes noted in the above assumptions will increase pension and postretirement expenses.



Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Realization of the Company's deferred tax assets is principally dependent upon the Company's achievement of projected future taxable income, which management believes is sufficient to fully utilize the deferred tax assets recorded.

Goodwill and Other Intangibles

The Company accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. Business combinations can also result in other intangible assets being recognized. Amortization of intangible assets, if applicable, occurs over their estimated useful lives. SFAS 142 establishes a two-step method for testing goodwill for impairment on an annual basis (or an interim basis if an event occurs that might reduce the fair value of a reporting unit below its carrying value). SFAS 142 also requires that an identifiable intangible asset that is determined to have an indefinite useful economic life not be amortized, but separately tested for impairment using a one-step fair value based approach. The value of goodwill is tested for impairment as of October 1 of each year, or more frequently if events or circumstances change that would likely reduce the fair value below carrying value. The Company uses the fair market value approach to test for impairment. The fair market valuations used for the impairment tests can be affected by changes in the estimates of the revenue multiples and the discount rate used in the calculations. Losses, if any, resulting from impairment tests will be reflected in operating income in the Company's income statement. No impairment resulted from the annual reviews performed in 2006 or 2005.

Amortization of other intangible assets is calculated on the straight-line basis using the following lives:

Sales contracts	18 years
Drawings	15 years
Program logic	10 years

Other Matters

Transactions with related parties are in the ordinary course of business and are not material to Gorman-Rupp's financial position, net income or cash flows.

Gorman-Rupp does not have any off-balance sheet arrangements, financings or other relationships with unconsolidated "special purpose entities." Gorman-Rupp is also not a party to any long-term debt agreements, or any material capital leases, operating leases or purchase obligations.



Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded the Company maintained effective internal control over financial reporting as of December 31, 2006. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Jeffrey S. Gorman

Jeffrey S. Gorman

President and Chief Executive Officer

Robert E. Kirkendall

Robert E. Kirkendall

Senior Vice President and Chief Financial Officer

February 22, 2007

**Report of Independent Registered
Public Accounting Firm****Board of Directors and Shareholders of
The Gorman-Rupp Company**

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that The Gorman-Rupp Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Gorman-Rupp Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that The Gorman-Rupp Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The Gorman-Rupp Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Gorman-Rupp Company as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of The Gorman-Rupp Company and our report dated February 22, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP

Cleveland, Ohio
February 22, 2007



Eleven-Year Summary of Selected Financial Data

(Thousands of dollars, except per share amounts)

	2006	2005	2004	2003
Operating Results:				
Net sales	\$270,910	\$231,249	\$203,554	\$195,826
Gross profit	58,676	47,071	42,425	41,851
Income taxes	8,654	6,235	5,075	4,613
Net income	19,072	10,903	9,277	9,787
Depreciation and amortization	6,688	6,808	7,179	7,274
Interest expense	41	25	40	56
Return on net sales (%)	7.0	4.7	4.6	5.0
Sales dollars per employee	258.3	233.3	211.4	196.4
Income dollars per employee	18.2	11.0	9.6	9.8

Financial Position:

Current assets	\$120,118	\$110,501	\$96,974	\$95,718
Current liabilities	27,646	28,219	21,112	21,908
Working capital	92,472	82,282	75,862	73,810
Current ratio	4.3	3.9	4.6	4.4
Property, plant and equipment – net	52,351	51,505	54,812	54,338
Capital additions – net	7,258	3,189	7,500	3,698
Total assets	187,540	179,541	165,673	162,395
Long-term debt	-	-	-	-
Shareholders' equity	128,142	127,048	121,898	117,918
Dividends paid	6,126	5,983	5,907	5,809
Average number of employees	1,049	991	963	997

Shareholder Information:⁽¹⁾

Basic and diluted earnings per share	\$1.43	\$0.82	\$0.69	\$0.73
Cash dividends per share	0.456	0.448	0.442	0.435
Shareholders' equity per share at December 31	9.59	9.51	9.13	8.83
Average number of shares outstanding	13,358,145	13,354,394	13,350,173	13,345,492

(1) Shares outstanding and per share data reflect the 5 for 4 stock split effective December 8, 2006.

Summary of Quarterly Results of Operations

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2006 and 2005:

(Thousands of dollars, except per share amounts)

Quarter Ended 2006	Net Sales	Gross Profit	Net Income	Basic and Diluted Earnings per Share ⁽¹⁾
First Quarter	\$ 67,087	\$14,950	\$ 4,538	\$0.34
Second Quarter	67,905	15,587	5,499	0.41
Third Quarter	70,833	16,590	6,612	0.50
Fourth Quarter	65,085	11,549	2,423	0.18
Total	\$270,910	\$58,676	\$19,072	\$1.43

(1) Per share data reflect the 5 for 4 stock split effective December 8, 2006.

2002	2001	2000	1999	1998	1997	1996
\$195,081	\$203,169	\$190,384	\$182,239	\$174,162	\$167,723	\$157,733
41,451	48,108	48,430	46,347	43,713	40,964	39,127
5,267	8,450	8,400	8,460	7,400	6,340	5,735
8,936	14,585	13,796	13,081	11,752	10,612	9,928
7,035	7,128	6,863	6,489	6,330	5,959	5,675
72	116	183	55	188	238	330
4.6	7.2	7.2	7.2	6.7	6.3	6.3
185.1	195.2	186.5	177.6	170.4	163.8	161.9
8.5	14.0	13.5	12.7	11.5	10.4	10.2
\$85,315	\$90,575	\$83,745	\$79,641	\$80,012	\$83,151	\$71,926
19,282	18,103	19,079	17,439	17,431	17,036	15,199
66,033	72,472	64,666	62,202	62,581	66,115	56,727
4.4	5.0	4.4	4.6	4.6	4.9	4.7
57,757	53,895	57,885	53,609	43,916	40,919	40,549
5,765	3,139	11,439	16,182	9,327	6,329	4,036
154,302	149,569	147,337	138,331	128,933	129,321	117,650
291	-	3,413	3,107	783	6,689	3,796
112,912	109,366	101,455	93,751	85,162	79,516	72,737
5,550	5,475	5,322	5,152	4,983	4,821	4,567
1,054	1,041	1,021	1,026	1,022	1,024	974
\$0.67	\$1.09	\$1.03	\$0.98	\$0.87	\$0.79	\$0.74
0.416	0.410	0.397	0.384	0.371	0.358	0.339
8.46	8.20	7.58	6.98	6.35	5.91	5.40
13,340,805	13,366,997	13,409,732	13,413,940	13,435,558	13,450,816	13,462,827

Quarter Ended 2005

	Net Sales	Gross Profit	Net Income	Basic and Diluted Earnings per Share ⁽¹⁾
First Quarter	\$ 52,037	\$ 9,785	\$ 1,654	\$0.12
Second Quarter	56,109	12,406	3,337	0.26
Third Quarter	58,980	11,370	2,675	0.20
Fourth Quarter	64,123	13,510	3,237	0.24
Total	\$231,249	\$47,071	\$10,903	\$0.82

(1) Per share data reflect the 5 for 4 stock split effective December 8, 2006.



Corporate Officers

James C. Gorman, 82
Chairman
Joined the Company, June 1949



Jeffrey S. Gorman, 54
President and
Chief Executive Officer
Joined the Company, January 1978



Robert E. Kirkendall, 64
Senior Vice President and
Chief Financial Officer
Joined the Company, April 1978



William D. Danuloff, 59
Vice President and
Chief Information Officer
Joined the Company, May 1971



Judith L. Sovine, CPA, 62
Treasurer
Joined the Company, September 1979



David P. Emmens, JD, 58
Corporate Counsel and
Secretary
Joined the Company, October 1997



Lee A. Wilkins, 52
Vice President
Human Resources
Joined the Company, October 1990



Division and Subsidiary Managers

Mansfield Division
Mansfield, Ohio

Mark L. Kreinbuhl, 51
Vice President and
General Manager
Joined the Company, March 1988



**Gorman-Rupp
Industries Division**
Bellville, Ohio

James T. Hooker, 60
Vice President and
General Manager
Joined the Company, June 1973



**Gorman-Rupp
of Canada Limited**
St. Thomas, Ontario, Canada

Gary W. Creeden, 60
Vice President and
General Manager
Joined the Company, January 1989



Patterson Pump Company
Toccoa, Georgia

Albert F. Huber, 53
President
Joined Patterson, May 1975
Joined the Company, November 1988



**American Machine
and Tool Co., Inc.
of Pennsylvania**
Royersford, Pennsylvania

Keith Bearde, 50
President and General Manager
Joined AMT, 1977
Joined the Company, February 2002



Board of Directors



Standing: John A. Walter, Christopher H. Lake, Peter B. Lake, Ph.D., Rick R. Taylor
Seated: W. Wayne Walston, JD, Jeffrey S. Gorman, James C. Gorman, Thomas E. Hoaglin

James C. Gorman, 82
Chairman
Elected to Board 1946

Jeffrey S. Gorman, 54
President and Chief Executive Officer
Elected to Board 1989

John A. Walter, 73
Retired President and Chief Executive
Officer of the Company
Elected to Board 1989

Thomas E. Hoaglin, 57
Chairman, President and Chief Executive
Officer, Huntington Bancshares, Inc.
Elected to Board 1993
(Previous Service 1986 - 1989)

W. Wayne Walston, JD, 64
Miner Lemon & Walston, LLP
Elected to Board 1999

Peter B. Lake, Ph.D., 64
Chairman and Chief Executive Officer
SRI Quality System Registrar
Elected to Board 1975

Christopher H. Lake, 42
President and Chief Operating Officer
SRI Quality System Registrar
Elected to Board 2000

Rick R. Taylor, 59
President
Jay Industries
Elected to Board 2003

Committees of the Board of Directors

Audit Review Committee

Thomas E. Hoaglin
Chairman

Peter B. Lake, Ph.D.
W. Wayne Walston, JD

Pension Committee

Peter B. Lake, Ph.D.
Chairman

Rick R. Taylor
John A. Walter

Nominating Committee

John A. Walter
Chairman

Christopher H. Lake
Rick R. Taylor

Compensation Committee

W. Wayne Walston, JD
Chairman

Thomas E. Hoaglin
Christopher H. Lake

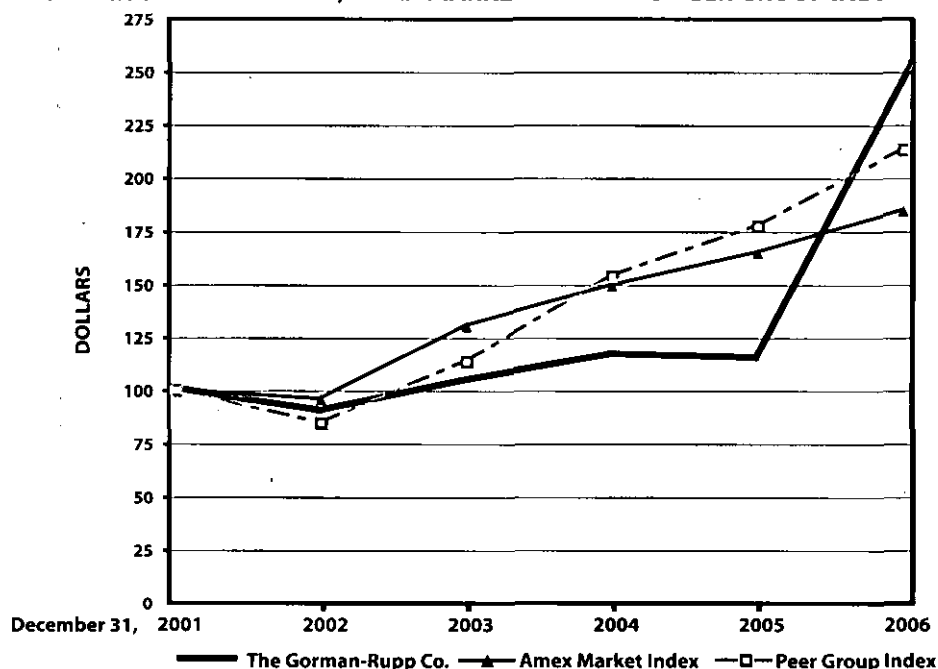


Shareholder Information

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

Set forth to the right is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's Common Shares against the cumulative total return of the American Stock Exchange Market Value Index and a Peer Group Index for the period of five fiscal years commencing January 1, 2002 and ending December 31, 2006. The issuers in the Peer Group Index were selected on a line-of-business basis by reference to SIC Code 3561—Pumps and Pumping Equipment. The Peer Group Index is composed of the following issuers: Ampco-Pittsburgh Corp., Dyneco Corporation, Flowserve Corp., Graco Inc., IDEX Corp., Met-Pro Corp., Robbins & Myers Inc. and Roper Industries Inc., in addition to the Company.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG THE GORMAN-RUPP COMPANY, AMEX MARKET INDEX AND PEER GROUP INDEX



Ranges of Stock Prices

ASSUMES \$100 INVESTED ON JAN. 01, 2002. ASSUMES DIVIDEND REINVESTED. FISCAL YEAR ENDING DEC. 31, 2006

The high and low sales price and dividends per share for common shares traded on the American Stock Exchange were:

	Sales Price of Common Shares				Dividends Per Share	
	2006		2005		2006	2005
	High	Low	High	Low		
First Quarter	\$19.59	\$17.02	\$19.19	\$17.09	\$.112	\$.112
Second Quarter	22.40	18.08	18.08	15.20	.112	.112
Third Quarter	27.60	18.91	22.39	16.16	.112	.112
Fourth Quarter	38.86	24.20	19.56	16.40	.120	.112

Per share data and sales price reflect the 5 for 4 stock split effective December 8, 2006.

Shareholder information reported by Transfer Agent and Registrar, National City Bank, February 12, 2007.

	Holders	Shares
Individuals	1,124	2,198,557
Nominees, brokers and others	16	11,161,447
Total	1,140	13,360,004

An additional 490,347 common shares are held in Treasury.

Shares reflect the 5 for 4 stock split effective December 8, 2006.

Annual Meeting

The annual meeting of the shareholders of The Gorman-Rupp Company will be held at the Company's Training Center, 270 West Sixth Street, Mansfield, Ohio, on April 26, 2007 at 10:00 a.m., Eastern Daylight Time.

Transfer Agent and Registrar

National City Bank
P.O. Box 92301
Cleveland, Ohio 44193-0900
Phone 800-622-6757

Principal Office

The Gorman-Rupp Company
305 Bowman Street
Mansfield, Ohio 44903-1689

Mailing Address

The Gorman-Rupp Company
P.O. Box 1217
Mansfield, Ohio 44901-1217

Phone 419-755-1011
Fax 419-755-1233

Investor Information

Contact: Robert E. Kirkendall
Senior Vice President and
Chief Financial Officer

Phone 419-755-1294
Fax 419-755-1233

Email robertk@gormanrupp.com

Exchange Listing

American Stock Exchange Symbol GRC

(continued on following page)

Incorporated

April 18, 1934, under the laws of the State of Ohio

SEC Form 10-K

The SEC Annual Report Form 10-K is available free of charge by written request to:

David P. Emmens
Corporate Secretary
The Gorman-Rupp Company
P.O. Box 1217
Mansfield, Ohio 44901-1217

Phone 419-755-1477
Fax 419-755-1233

Internet Information

Information about the Company, its U.S. Securities and Exchange Commission filings and its products are available through Gorman-Rupp's web site at:
www.gormanrupp.com

To Buy or Sell Stock

Stock cannot be purchased or sold through The Gorman-Rupp Company. Purchases and sales of the Company's common stock are generally made through a Securities Dealer or through the Dividend Reinvestment Plan offered through National City Bank.

In addition, employees of the Company may purchase additional shares through an Employee Stock Purchase Plan without brokerage charges.

Open Enrollment Dividend Reinvestment and Stock Purchase Plan

National City Bank offers a convenient plan for investment in shares of common stock of The Gorman-Rupp Company. Whether purchasing shares for the first time or adding to existing holdings, investors can now buy or sell common shares of The Gorman-Rupp Company directly through National City's

Open Enrollment Dividend Reinvestment and Stock Purchase Plan. Your initial investment may be made for a minimum of \$500 to a maximum of \$10,000. Any subsequent investments may be made for a minimum of \$50 (to a maximum of \$5,000) per month. For additional information, write to the Company, Attention: Corporate Secretary, for a copy of the Plan brochure, or call a customer service representative at National City Bank.

Phone 800-622-6757

Direct Dividend Deposit

Gorman-Rupp offers direct cash dividend deposit, which automatically deposits your dividend check into your checking or savings account. Your dividend is available to you on the payment date.

For additional information, call a customer service representative at National City Bank.

Phone 800-622-6757

Divisions and Subsidiaries**The Gorman-Rupp Company**

305 Bowman Street Phone 419-755-1011
P.O. Box 1217 Fax 419-755-1233
Mansfield, OH 44901-1217 www.gormanrupp.com

Mansfield Division

305 Bowman Street Phone 419-755-1011
P.O. Box 1217 Fax 419-755-1251
Mansfield, OH 44901-1217

Patterson Pump Company*

9201 Ayersville Road Phone 706-886-2101
P.O. Box 790 Fax 706-886-0023
Toccoa, GA 30577

Gorman-Rupp Industries Division

180 Hines Avenue Phone 419-886-3001
Bellville, OH 44813 Fax 419-886-2338

American Machine and Tool Co., Inc. of Pennsylvania*

400 Spring Street Phone 610-948-3800
Ryersford, PA 19468 Fax 610-948-5300

The Gorman-Rupp International Company*

305 Bowman Street Phone 419-755-1011
P.O. Box 1217 Fax 419-755-1266
Mansfield, OH 44901-1217

Gorman-Rupp of Canada Limited*

70 Burwell Road Phone 519-631-2870
St. Thomas, Ontario Fax 519-631-4624
N5P 3R7 Canada

Patterson Pump Ireland Limited*

Unit 14 Mullingar Business Park Phone 353-44-84695
Mullingar, CO. Westmeath, Ireland Fax 353-44-84698

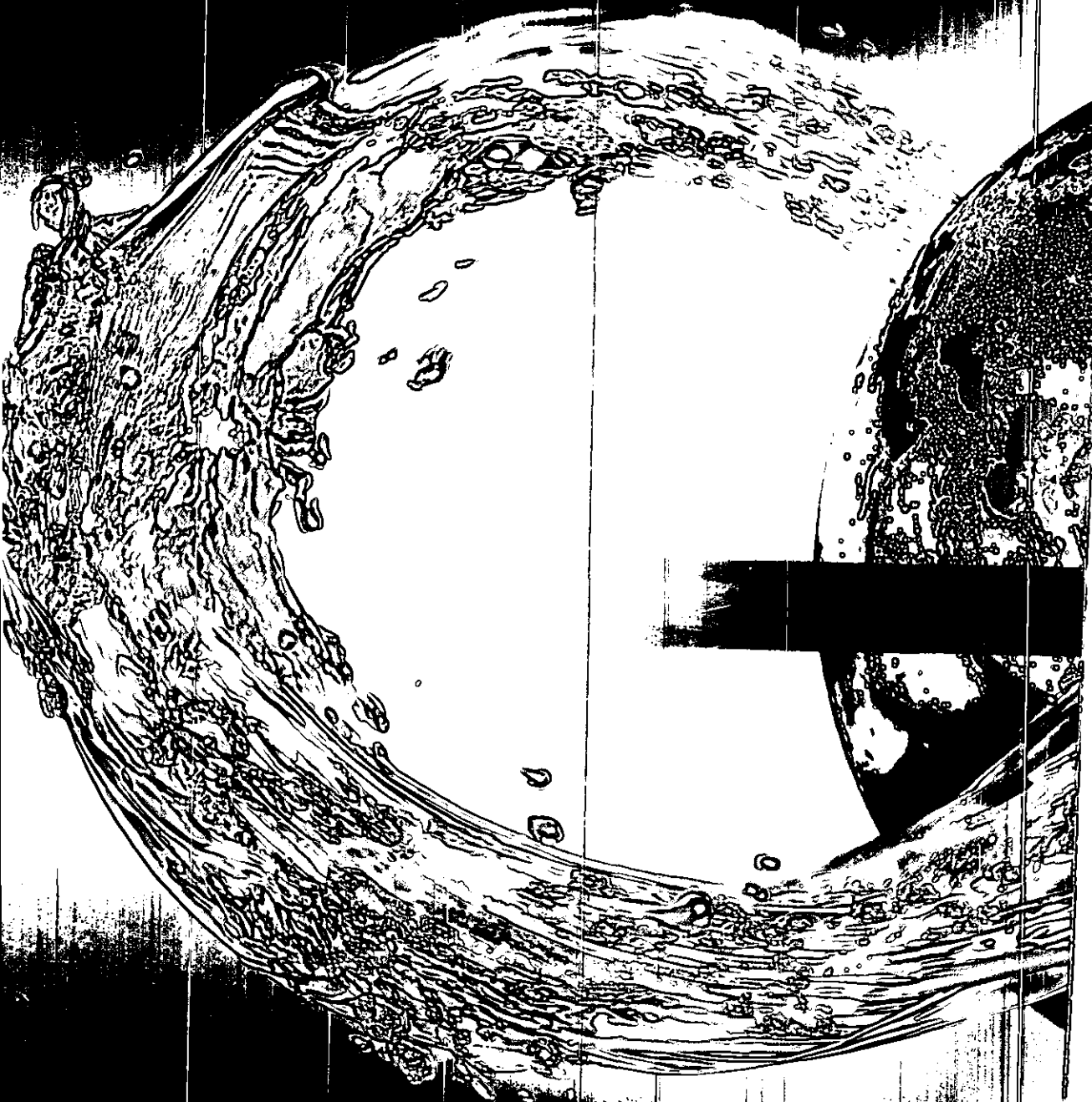
*Subsidiary Companies — 100% owned

Safe Harbor Statement

This Annual Report contains various forward-looking statements and includes assumptions concerning The Gorman-Rupp Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risk and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, The Gorman-Rupp Company provides the following cautionary statement identifying important economic, political and technological factors, among others, the absence of which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (1) continuation of the current and projected future business environment, including interest rates and capital and consumer spending; (2) competitive factors and competitor responses to Gorman-Rupp initiatives; (3) successful development and market introductions of anticipated new products; (4) stability of government laws and regulations, including taxes; (5) stable governments and business conditions in emerging economies; (6) successful penetration of emerging economies; and (7) continuation of the favorable environment to make acquisitions, domestic and foreign, including regulatory requirements and market values of candidates.

GR
GORMAN-RUPP
COMPANY



END